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COLORADO RIVER COMMISSION
OF NEVADA

November 4, 2002

BY FACSIMILE; HARD COPY TO FOLLOW

Mr. J. Tyler Carlson
Regional Manager
Western Area Power Administration
Desert Southwest Region
P.O. Box 6457
Phoenix, Arizona 85005-6457

Re: Comments on the Applicability of the Power Marketing Initiative to the Parker-Davis Project

Dear Tyler:

The following written comments respond to Western's Notice of Proposal published in the *Federal Register* (Vol. 67, No. 153) on August 8, 2002. Western's proposal is to extend the long-term, firm power contracts of the Parker-Davis Project (P-DP) by application of the Power Marketing Initiative (PMI) of the Energy Planning and Management Program (EPAMP). Western asks for comments regarding the applicability of the PMI to the P-DP, the percentage of resources to be extended to existing customers, and the size of the proposed resource pool. The following comments reaffirm and supplement oral comments offered by the Colorado River Commission of Nevada at your public comment forums on October 8, 9 and 10, 2002.

The Colorado River Commission of Nevada (CRC) is an agency of the State of Nevada created in 1935 to function as a utility for the purpose of administering the State's rights in, among other things, electric power purchased from the Federal Government. See Nevada Revised Statutes (NRS) §§ 538.041 to 538.251, inclusive. Under that law, the CRC in turn resells the power to users within Nevada at cost plus an administrative charge to cover its expenses. The State of Nevada and its Colorado River Commission make no profit whatsoever from its access to federal power.

As a qualified preference entity under federal reclamation law, the State of Nevada, acting through the CRC, purchased P-DP power for decades under the contract that terminated in 1987. And, under its present contract, No. 87-BCA-10086, which Western now proposes to extend, the CRC receives on average about 25 percent of the P-DP resource as a preference entity within Western's Boulder City marketing area. CRC continues to be a qualified preference entity under federal reclamation law. In addition to its status as a state public body, CRC has "utility status," as defined by Western, in that CRC has responsibility to meet the load

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growth of its customers; it owns and operates a distribution system at Basic Substation in Henderson, Nevada, whose construction was closely coordinated with Western; CRC itself performs the necessary scheduling, meter reading, billing and accounting functions; and CRC is ready, willing and able to continue purchasing federal power from Western on a wholesale basis as it has been doing for many decades now.

CRC serves seven customers with P-DP power. They include Overton Power District No 5, an electric improvement district; Valley Electric Association, an electric cooperative nonprofit membership corporation; and Basic Water Company and five manufacturing companies, end-users that comprise the Basic Industrial Complex near Henderson, Nevada. As Western knows, CRC has served these utility and retail customers with P-DP power for many decades now, consistent with preference law. CRC is satisfied that its service of P-DP power to these customers spreads the use of that power widely in the rural areas of southern Nevada as well as in an important sector of Nevada's economy.

Under state law (NRS 538.181(7)), CRC is required to offer these customers the right to renew their contracts with the CRC if CRC's contract with Western is extended or renewed. This statutory requirement recognizes that federal power is extremely valuable for the economy of the State of Nevada as a whole and for these customers in particular. When the price of this federal power is compared with the cost of replacement power on the electric energy market, the benefit of P-DP power to users in Nevada amounts to almost \$11 million per year. The well-being of these customers, and the communities and economies they serve, depends on a firm, affordable resource that can be counted on far into their planning horizons. CRC believes the Power Marketing Initiative gives Nevada the long-term, stable resource it needs, and so we welcome and support Western's proposal to apply the PMI to the Parker-Davis Project. Because it is essential that CRC and its customers be able to plan their power resources as early as possible, we also commend Western for taking this step now to move the PMI process forward.

CRC strongly agrees that the Power Marketing Initiative under the Energy Planning and Management Program should apply to the Parker-Davis Project—and for the same reasons Western concluded just a few years ago that it should apply to the Salt Lake City Area Integrated Projects. As you know, since it was first proposed in 1991, EPAMP has had two major components: a requirement that long-term, firm power contractors prepare integrated resource plans (IRPs); and a Power Marketing Initiative through which those contractors would receive an extension of "a major portion" of the resources available at the time current contracts expire. The IRP requirement, as codified by the 1992 Energy Policy Act, and the contractors' burden of complying with that requirement, have been in place for many years now. CRC and its customers are in full compliance with the IRP requirement. It is only equitable that the Federal Government continue to carry out the rest of the program by offering meaningful extensions of the hydropower resources those contractors receive.

Applying the PMI to the Parker-Davis Project also has other significant advantages.

Extending resource commitments avoids a lengthy, complicated process that would be required to completely revise the present P-DP marketing criteria and produce an environmental impact statement for the new marketing plan. Such an unnecessary process would create a substantial burden on Western and existing customers alike at a time when human and economic resources are already stretched thin. Extending resource commitments also gives the United States the relative assurance of a continued revenue stream to repay the expenses and obligations of the project.

Stability in the availability of federal hydropower resources is obviously a crucial factor in integrated resource planning. For contractors who depend upon federal power for a significant part of their resource mix as does the CRC and its customers, it is difficult, if not impossible, to engage in meaningful long-term resource planning without assurance that federal power will continue to be available well into the planning horizon. For us, and we believe for other typical contractors for federal power, a 20-year contract period is essential in order to gain that necessary assurance. For that reason, CRC strongly supports the application of Western's PMI rule promising 20-year contract extensions.

CRC understands Western's well-intentioned desire to spread the benefits of P-DP power as widely as possible without harming existing customers who have shouldered the risks and burdens associated with that power. We believe Western adequately accomplished that in its 1987 P-DP allocations, and would suggest that Western's allocations to southern Nevada are an essential part of its plan for widespread distribution of P-DP power within the three states that encompass the P-DP marketing area. In fact, Nevada gets the smallest percentage of the marketable resource: on average 25.28 percent to California's 27.24 percent and Arizona's 47.48 percent, not including the one-half of Parker's output to southern California's Metropolitan Water District. The reduction of firm Parker-Davis allocations to existing customers, even by the amount proposed by Western, could very well endanger the well-being of those customers. They will now be required to replace economical P-DP resources with market resources, which in the future may be even higher-priced than present opportunities. This potential harm needs to be minimized. For these reasons, CRC can support the proposed creation of a single, one-time resource pool that would be formed by extending 94 percent of the P-DP customers' entitlement of long-term, firm P-DP resources as of September 30, 2008. But we would urge Western and Reclamation to find ways to substantially reduce, if not eliminate, the amount of the extended resource that is characterized as "withdrawable." As with the Salt Lake City Area Integrated Projects, we would support limiting the new resource pool to Native American tribes, and any unallocated power remaining in that pool should be returned pro rata to the existing customers. Similarly, if a new customer receives an allocation but is unable to accept power on October 1, 2008, the power allocated to that new customer should be provided to existing customers until such reasonable time as the new customer is able to use the power.

CRC applauds Western's proposal to require new customers to participate in advance funding of Western's and the Bureau of Reclamation's operation and maintenance expenses.

Experience teaches that this system works best when all customers participate. We are especially pleased that Western's proposal recognizes the provision in the current Advancement of Funds contract that new customers be required to reimburse existing customers for undepreciated replacement advances. We would urge Western, in cooperation with the Parker-Davis customers, to develop a methodology, which would provide for that reimbursement in a timely manner.

The public comment forum serves not only to inform Western but also existing customers and other interested parties that take the trouble to participate. Hearing the comments of others and having an opportunity to reply to those comments adds effectively to the information Western can bring to its decision-making. Sadly, relatively few attendees chose to offer comments at the public comment forums held on October 8, 9 and 10, 2002. Presumably, the current opportunity to provide written comments by November 6, 2002, will yield many more comments, but under the process as we presently understand it, these comments will be seen by other interested parties for the first time when they are published by Western together with Western's responses. It appears we may expect that some of the written comments may address particular matters to which, in fairness and in the public interest, other parties should be allowed to reply. CRC would urge Western to permit ***one*** round of reply comments ahead of Western's responses, which would not unduly delay or prejudice the process. Western has allowed reply comments in other allocation processes—the Hoover allocation in the mid-1980s, for instance—to the benefit of Western and the customers and public it serves.

Thank you for this opportunity to offer written comments on the extension of Parker-Davis power resource commitments by application of the EPAMP Power Marketing Initiative.

Sincerely,

G. M. Caan

George M. Caan
Executive Director

Xc: CRC Commissioners
CRC P-DP Power Customers

GMC/GAL